



2007
PRE-ELECTION
REPORT ON
ONTARIO'S FINANCES

Ministry of Finance



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FOREWORD

THE HONOURABLE GREG SORBARA MINISTER OF FINANCE

The 2007 Pre-Election Report on Ontario's Finances is the first of its kind in Canada and among the first in the world. It is designed to inform voters, Ontarians and political parties about the Province's fiscal plan prior to the upcoming general election.

The report arises out of the McGuinty government's commitment to transparency in decision-making and accountability to the people we serve. As part of that commitment, the government introduced the *Fiscal Transparency and Accountability Act*, which the legislature passed in 2004. A key requirement of the Act is that the Ministry of Finance must prepare and release a Pre-Election Report to be reviewed by the Auditor General.

This Pre-Election Report presents the government's fiscal plan for the 2007–08 to 2009–10 fiscal years, consistent with the 2007 Ontario Budget presented on March 22, 2007.

The fiscal plan is developed using the input from private-sector economic forecasters, sophisticated revenue and economic modelling, a comprehensive ministry results-based planning process and decisions undertaken by the Treasury Board and ultimately the Cabinet.

The fiscal plan also reflects the government's policy choices, current fiscal arrangements and relationships with other levels of government, information on the state of Ontario's economy, as well as legal and accounting practices and considerations.

We hope the report will find its way to a broad audience of readers. It is designed both to educate and to encourage informed discussion about the financial well-being of the Province. In short, we are making the budget process more accountable and more transparent to the people of Ontario.

Democratic societies such as Ontario thrive when well-informed public discussion and debate precedes decisions on public policy issues. The goal of this report is to support those discussions and shape those debates with reliable information and relevant, articulate analysis. It is one important way in which we can work together towards a more vibrant economy and a stronger democracy.

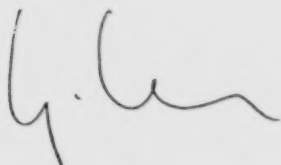


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Introduction

The *Fiscal Transparency and Accountability Act* (FTAA) was passed in December 2004 to ensure greater transparency and accountability in the government's fiscal planning and financial reporting. Under the Act, the Ministry of Finance must release a Pre-Election Report on Ontario's finances in advance of a provincial election. The report must also be reviewed by the Auditor General of Ontario.

This 2007 Pre-Election Report is Ontario's first. Its purpose is to give citizens in Ontario a clear understanding of the Province's estimated future revenues and expenses, and other details of its fiscal planning, before the provincial election scheduled for October 10, 2007. The Auditor General expects to release the results of his review of this report in June 2007.

This report provides information on:

- the macroeconomic forecasts and assumptions that were used to prepare the fiscal plan
- an estimate of Ontario's revenues and expenses, including estimates of the major components of the revenues and expenses as set out in the plan
- details of the reserve
- the ratio of provincial debt to Ontario's gross domestic product (GDP).

The fiscal plan on which it reports is the one set out in the 2007 Ontario Budget. This report also provides an update on events that happened after the Budget was finalized on March 16, 2007.

The planning process

To understand the role of this report, it is important to understand first what Ontario's fiscal plan is and how it is developed.

The 2007 Ontario Budget, which was released on March 22, covers this fiscal year and the subsequent two years. This three-year outlook is the core of what is called the "Medium-Term Fiscal Plan." Providing a three-year plan gives organizations in the broader public sector a better sense of the resources available to their sector as they do their own planning. It also gives citizens a clear view of the Province's fiscal direction.

In developing their input to the fiscal plan, ministries use a results-based planning process to determine how best to use available resources to achieve planned results. Through this process, they also report on how resources previously made available to them were used. Ministry plans, once reviewed and approved by the government's Treasury Board, form the basis for the expense estimates in the fiscal plan.

The process also addresses planned outlays for capital infrastructure such as highways, bridges, hospitals, college facilities and government buildings. In line with the accounting standards for provincial governments, these investments are amortized to the Province's expenses over the expected useful lives of the related capital assets. Details on the Province's estimated \$5.9 billion in capital and capital-related infrastructure spending are provided in Table 26 of the 2007 Ontario Budget.

The government also estimates the revenues available to support expenses over the three years of the plan. Revenues, particularly those related to taxation,

depend largely on the outlook for the provincial economy. The government may also choose to make changes to the tax system to support greater fairness, efficiency, competitiveness and economic growth. As well, transfers from the federal government are an important component of provincial revenue and are generally provided in the form of block fund transfers, which the Province allocates based on its priorities. Together, these elements form the basis of the revenue estimates in the fiscal plan.

Once completed, the fiscal plan is included in the Ontario Budget, which reflects the government's decisions about how to allocate expected resources to achieve its major objectives. Under FTAA, the government must plan for a balanced budget unless, as a result of extraordinary circumstances, it determines that it is consistent with prudent fiscal policy to have a deficit. In that case, it must develop a recovery plan for achieving a balanced budget in the future, including the time period over which this is expected to happen.

The release of the fiscal plan in the Budget is followed by the tabling of a detailed breakdown of ministry expenses, known as the Printed Estimates. Once concurred by the legislature, the Estimates and passage of the *Supply Act* give the government the legal authority to undertake the spending outlined for the first year of the plan.

Prudence and flexibility

FTAA sets out governing principles requiring Ontario's fiscal policy to be based on cautious assumptions and to recognize the need for flexibility.

These principles underline that the fiscal plan is not static. It is based on government policy decisions and direction, as well as estimates built on the most

reasonable assumptions, at the time the plan is developed. FTAA acknowledges that a plan must be responsive to changing circumstances. After it is released, new priorities may emerge and economic performance may differ from what was forecast.

Information and events that were not foreseen during planning may have either a positive or negative impact on actual results. When results are better than expected, the government has more fiscal flexibility to deal with existing or new priorities. For example, in the 2005–06 fiscal year, actual revenues were \$2.5 billion higher than had been estimated in the plan for the year. This allowed the government to provide additional funding for priority areas, including major infrastructure investments.

Positive results are easier to manage. While recent history has seen taxation revenues and federal transfers that were higher than forecast, at other times unforeseen events have caused results to fall short of what was expected. For example, in the 2003–04 fiscal year, a number of events contributed to a \$5.5 billion deficit instead of the planned balanced budget. At such times, a fiscal plan that is constructed prudently — that is, with a margin for caution — provides greater flexibility than one that is not. Prudence and flexibility go hand-in-hand as requirements of good fiscal planning that allow government to manage the inherent uncertainty of future events.

A wide range of assumptions and planning tools help to build prudence into Ontario's fiscal plan. Here are some examples:

- **Estimated revenues** are based on growth rates for real GDP that are set lower than the average of private-sector forecasts in each year. Starting with the assumption that economic performance will

be slightly lower than expected helps to provide a margin of caution in the revenue forecast.

- The projected **expense for interest** on the Province's debt uses conservative assumptions about the Province's borrowing costs.
- The plan includes an allowance for **contingencies** in each year to help mitigate against risks that may otherwise have a negative impact on results.
- Separate from the allowance for contingencies, the fiscal plan also includes a **reserve** in each year to protect against unexpected and adverse changes in the Province's revenue and expense outlook, including those resulting from changes in Ontario's economic performance.

The government has taken measures to ensure an appropriate level of prudence is built into the fiscal plan. It introduced FTAA, which requires the inclusion of a reserve in fiscal plans and bases the governing principles of fiscal policy on prudence and flexibility. Also as required by FTAA, the Minister of Finance set up an Ontario Economic Forecast Council to provide the input and advice of experts from outside government in establishing reasonable forecasting assumptions.

The positive results of recent years illustrate the major benefit of prudent planning: it increases fiscal flexibility and improves the ability of government to meet its major expense objectives in the fiscal plan. In government, good planning means using prudent assumptions that are as reasonable and complete as possible.

Additional information

The fiscal plan in the 2007 Ontario Budget is the source for the estimated revenues and expenses in this report. Because understanding the goals of the plan is as important as understanding how it was developed, this report should be read in conjunction with the Budget. For ease of reference, this report points to specific sections, discussions and information in the Budget that relate to sections of this report.

This Pre-Election Report presents Ontario's fiscal plan at a specific time, based on the best available information. Governments make adjustments to their plans from time to time to reflect new information, events, needs and priorities. To share these with its citizens, the Province provides regular financial updates: the *Ontario Finances*, which provide a first- and third-quarter update on the fiscal outlook for the current year, and the *Economic Outlook and Fiscal Review*, which provides a mid-year look at the state of the Province's finances and economy as of the second quarter. And, of course, a new Budget before the start of the next fiscal year will update the fiscal plan. As well, FTAA requires a long-range assessment of Ontario's fiscal environment to appear within two years after each provincial election. Readers can view these documents at www.fin.gov.on.ca.

Overview of the Fiscal Plan

The fiscal plan set out in this report covers the fiscal years ending March 31, 2008, March 31, 2009 and March 31, 2010.

The estimated revenues and expenses for these three years are the same as those in the 2007 Ontario Budget. They were developed through economic and revenue forecasts and the Province's results-based planning process. They are based on economic

assumptions and government planning decisions up to March 16, 2007.

The fiscal plan includes estimated revenues, expenses and resulting surplus (deficit) for each of the next three years before, and after, the reserve as described below.

CONSOLIDATED STATEMENT OF ESTIMATED REVENUES, EXPENSES AND RESERVE (\$ BILLIONS)

	For the years ending March 31:	Estimated		
		2008	2009	2010
Revenues		91.5	94.7	97.8
Expenses				
Programs		82.0	84.2	86.8
Interest on Debt		9.1	9.2	9.4
Total Expenses		91.2	93.4	96.2
Annual Surplus Before Reserve		0.4	1.3	1.6
Reserve		0.8	1.0	1.3
Annual Surplus (Deficit) After Reserve		(0.4)	0.3	0.4

Note: Numbers may not add due to rounding.

This table is based on Table 22 on page 163 of the 2007 Ontario Budget.

Total revenues are estimated to reach \$91.5 billion in 2007–08 and rise to \$97.8 billion in 2009–10, representing an average annual growth rate of 3.4 per cent over the period covered by the plan. This increase is attributable mainly to economic growth.

Total expenses are estimated to rise from \$91.2 billion in 2007–08 to \$96.2 billion in 2009–10, representing an average annual growth rate of 2.7 per cent over the period covered by the plan. Expenses in the health, education, postsecondary

education and training, and children's and social services sectors account for almost 75 per cent of total provincial expenses. The growth in expenses over the planning period is largely in these sectors.

As required by FTAA, a **reserve** is included in each year of the fiscal plan to protect against unexpected and adverse changes in the economic and fiscal outlook. A reserve of \$0.8 billion is included in the fiscal plan for 2007–08, \$1.0 billion in 2008–09 and \$1.3 billion in 2009–10. The increase in the last two

years reflects the greater uncertainty of projecting further into the future.

Economic growth is a major driver of revenue growth. The fiscal plan assumes growth in real GDP of 1.6 per cent in 2007, rising to 2.8 per cent in 2008 and 3.1 per cent by 2009. Nominal GDP is projected to grow by 3.1 per cent in 2007 and 4.7 per cent in 2008 and 2009.

Provincial debt is defined by FTAA as the accumulated deficit. It is expected to be \$109.2 billion at the end of the 2007-08 fiscal year, and to fall to \$108.6 billion by the end of 2009-10 if the reserve were required in each of the years included in the period covered by the plan. Over this same period, Ontario's nominal GDP is projected to grow. As a result, the ratio of the Province's debt to the size of the provincial economy is projected to improve from 19.2 per cent at March 31, 2008 to 17.4 per cent at March 31, 2010.

Remaining sections of this report provide additional details on each of these areas, as well as key assumptions underlying the revenue and expense outlook, risks associated with those assumptions and sensitivity to risks, as presented in the 2007 Ontario Budget.

The section of this report entitled "Subsequent Information" describes the impact of information, specifically measures in the 2007 federal budget and updated taxation revenue data, that became available after March 16, 2007. The fiscal plan has not been affected materially by this subsequent information and accordingly has not been adjusted.

Statement of Ministry of Finance Responsibility

This 2007 Pre-Election Report on Ontario's Finances has been prepared by the Ministry of Finance in compliance with the *Fiscal Transparency and Accountability Act, 2004*. The fiscal plan presented in this report is the same as that in the 2007 Ontario Budget.

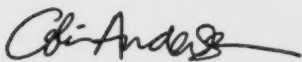
The Ministry of Finance is responsible for the information contained in this report. The ministry's estimates of revenues and expenses have been developed consistent with the policy decisions of the government and the ministry's best judgments on the projected performance of the Ontario economy, demands for government services and other key fiscal planning assumptions.

In compliance with the requirements of the *Fiscal Transparency and Accountability Act, 2004*, this report includes the following information from the most recent fiscal plan:

- the macroeconomic forecasts and assumptions that were used to prepare the fiscal plan
- an estimate of Ontario's revenues and expenses, including estimates of the major components of the revenues and expenses as set out in the plan
- details of the reserve described in subsection 5(4) of the Act
- information about the ratio of provincial debt to Ontario's gross domestic product.

The estimates are based on the best information available as at March 16, 2007, the date the 2007 Ontario Budget was finalized. Information related to events that occurred after March 16, 2007 is also provided in this report. This information does not materially impact the financial estimates in the fiscal plan presented in the Budget. Accordingly, the fiscal plan has not been updated in this report.

The financial estimates in this report have been prepared in accordance with generally accepted accounting principles recommended by the Canadian Institute of Chartered Accountants. The accounting policies are consistent with those used by the Ministry of Finance in preparing the Public Accounts of Ontario.



Colin Andersen
Deputy Minister



Philip Howell
Associate Deputy Minister

April 17, 2007

Consolidated Statement of Estimated Revenues, Expenses and Reserve

CONSOLIDATED STATEMENT OF ESTIMATED REVENUES, EXPENSES AND RESERVE (\$ BILLIONS)

	For the years ending March 31:	Estimated		
		2008	2009	2010
Revenues				
Personal Income Tax		23.3	24.7	26.4
Retail Sales Tax		16.7	17.5	18.4
Corporations Tax		10.6	10.7	10.6
Ontario Health Premium		2.6	2.8	2.9
Other Taxes		11.1	11.5	12.0
Total Taxation		64.3	67.2	70.1
Government of Canada		16.1	15.8	15.9
Income from Investment in Government Business Enterprises		4.0	4.5	4.5
Other		7.1	7.3	7.3
Total Revenues		91.5	94.7	97.8
Expenses				
Program Expenses:				
Health Sector		37.9	39.8	41.5
Education Sector		12.4	12.8	12.9
Postsecondary Education and Training Sector		5.9	6.0	6.1
Children's and Social Services Sector		10.9	11.2	11.3
Justice Sector		3.3	3.4	3.4
Other Programs		11.6	11.2	11.6
Total Program Expenses		82.0	84.2	86.8
Interest on Debt		9.1	9.2	9.4
Total Expenses		91.2	93.4	96.2
Annual Surplus Before Reserve		0.4	1.3	1.6
Reserve		0.8	1.0	1.3
Annual Surplus (Deficit) After Reserve		(0.4)	0.3	0.4

See pages 25-26 for a summary of significant accounting policies and contingent liabilities.

Note: Numbers may not add due to rounding.

This statement includes information from Table 12 on page 142 and Table 18 on page 150 of the 2007 Ontario Budget.

The estimated revenues and expenses in this report are based on forecasts of the performance of the economy, expected demands for government services and other key fiscal planning assumptions. The Province's estimated revenues and expenses are sensitive to changes in these underlying assumptions. Generally accepted accounting

principles require disclosure regarding the uncertainty inherent in future-oriented financial information. Although the estimates in this report are based on the best information currently available, given the inherent uncertainties in economic and fiscal forecasting, actual revenues and expenses may differ from these estimates, and these variations may be material. Consistent with FTAA, the estimates above are based on the use of prudent assumptions, as described in this report.

Details of Estimated Revenues

The estimate of revenues is largely based on the economic outlook, which calls for strengthening economic growth over the 2007 to 2009 period. Stronger Ontario economic growth is projected based on signs of a resurgence in economic growth late in 2006 and a more favourable global economic environment.

The following section provides background on the key macroeconomic forecasts and assumptions on which the revenue estimates are based.

Macroeconomic forecast and assumptions

The Ministry of Finance economic outlook is linked to the average of private-sector forecasts available

on March 1, 2007 for broad measures of Ontario economic growth, notably output (as measured by GDP), prices and employment. Economic forecast assumptions underlying the current fiscal plan are deliberately based on Ontario real GDP growth 0.1 percentage point below the private-sector average in each year. Changes in private-sector forecasts since March 1 have not materially altered the forecast average, and therefore would not affect Ministry of Finance assumptions upon which the fiscal plan is based.

ONTARIO ECONOMIC OUTLOOK (PER CENT)

	For calendar years:	2007	2008	2009
Real GDP Growth		1.6	2.8	3.1
Nominal GDP Growth		3.1	4.7	4.7
Unemployment Rate		6.3	6.2	6.1
CPI Inflation		1.3	1.9	1.9

Source: Ontario Ministry of Finance.

This table reflects Table 10 from page 140 of the 2007 Ontario Budget

The Ministry of Finance outlook for the major external factors shaping Ontario's economic prospects is also closely tied to private-sector forecasts. These factors include the U.S. economic outlook, interest rates, the Canadian dollar exchange rate, oil prices and economic growth in the rest of Canada. Developing revenue estimates requires highly detailed economic forecasts that often go well beyond what is readily available from most private-sector forecasters.

As such, the more detailed components of the outlook are based on a combination of private-sector forecasts and macro-econometric models. Professional judgment also plays a role, especially in interpreting model results, judging the reasonableness of private-sector forecasts and incorporating the latest information.

In accordance with FTAA, the Minister of Finance created the Ontario Economic Forecast Council. The advice of its private-sector members in developing the Ministry of Finance's economic outlook provides additional support for the economic assumptions underlying its fiscal plan. Members of the Ontario Economic Forecast Council were asked to review

the Ministry of Finance's economic assumptions underlying the 2007 Ontario Budget as of March 1, 2007. As noted in the Budget, responses confirmed that the forecast was reasonable.

The key assumptions underlying the Ontario economic outlook are outlined below.

KEY EXTERNAL FACTORS AFFECTING ONTARIO'S ECONOMY

	For calendar years:	2007	2008	2009
Canadian Dollar (Cents US)		86.0	87.5	88.0
Crude Oil (\$ US per Barrel)		61.0	61.0	61.0
U.S. Real GDP Growth (Per Cent)		2.7	3.0	3.1
Three-month Government of Canada Treasury Bill Rate (Per Cent)		4.1	4.3	4.5
10-year Government of Canada Bond Rate (Per Cent)		4.2	4.7	5.1

Source: Ontario Ministry of Finance.

This table reflects information on pages 130, 131, 132 and 135 of the 2007 Ontario Budget.

The table below shows the typical range for the first- and second-year estimated impacts of changes in key external factors on Ontario real GDP growth, based on historical relationships. Impacts are shown

in isolation from changes to other external factors. The combination of changing circumstances can also have a substantial bearing on the actual outcome.

ESTIMATED IMPACTS OF CHANGES IN KEY ECONOMIC ASSUMPTIONS ON ONTARIO REAL GDP GROWTH¹ (PERCENTAGE POINT INCREASE)

	First Year	Second Year
Canadian Dollar Depreciates by Five Cents US	0.2 to 0.9	0.7 to 1.4
World Crude Oil Prices Decrease by \$10 US per Barrel	0.3 to 0.7	0.1 to 0.5
U.S. Real GDP Growth Increases by One Percentage Point	0.3 to 0.7	0.4 to 0.8
Canadian Interest Rates Decrease by One Percentage Point	0.1 to 0.5	0.2 to 0.6

¹ Impacts based on changes being sustained.

Source: Ontario Ministry of Finance.

This table reflects Table 9 from page 135 of the 2007 Ontario Budget.

The "Sensitivity Analysis" section of this report outlines the estimated impact of a one percentage point change in real GDP on revenues. More detailed information on the Ontario economic outlook,

including additional assumptions applied in the revenue estimates, is provided in the 2007 Ontario Budget, Chapter 2, Section C.

Estimated revenues

Revenues are estimated to increase from \$91.5 billion to \$97.8 billion over the fiscal planning period. These results are based on the use of information available at the time the fiscal plan was developed, the Ministry of Finance's economic outlook and the government's policy decisions. Variances from these revenue estimates may arise due to inherent uncertainties involved in predicting the future, and lags in information flows. In recent years, actual revenues have been substantially higher than estimated for various reasons that were outlined in each year's provincial Annual Report.

Key assumptions and risks related to noted assumptions are discussed for each revenue category. Additional details on the impact of changes in key planning assumptions are provided in the "Sensitivity Analysis" section of this report.

Taxation revenues

Taxation revenue estimates based on the economic outlook are largely developed using macro-econometric and micro-simulation models. Model-based forecasting that captures the relationship between a revenue source and its main economic drivers, given the structure of the tax system, is generally accepted as a best practice.

Personal Income Tax (PIT) revenues are estimated to be \$23.3 billion in 2007–08, increasing to \$26.4 billion in 2009–10. These revenues are estimated based on the latest available tax return processing information from the Canada Revenue Agency for 2005 tax returns processed during 2006. Future increases in tax revenues over that base are projected using models, with the economic growth outlook a key factor. The projection also incorporates

the expected impact of all relevant tax measures as announced to date by the Ontario Government.

Key assumptions. Expected PIT revenue depends on the estimate of revenues from processing 2006 and future-year tax returns. Key assumptions underlying the estimate of PIT revenues include the expected growth in wages and salaries, unincorporated business income, capital gains income and Registered Retirement Savings Plan (RRSP) contribution deductions. Owing to the progressive nature of the tax system, estimated PIT revenue growth is also affected by the assumed distribution of income increases across income levels.

Risks related to key assumptions. Variances in tax return processing revenues during 2007, both for 2006 and for amounts in respect of prior years, would affect the base upon which growth is applied. In addition, there are uncertainties associated with the assumptions about growth in wages and salaries, unincorporated business income, capital gains income and RRSP contribution deductions. The impact of an income distribution different from the one assumed is difficult to quantify; however, based on the experience of recent years, the impact on PIT revenue growth could easily be one percentage point up or down in any given year.

Ontario Health Premium revenues are estimated to be \$2.6 billion in 2007–08, increasing to \$2.9 billion in 2009–10. These are estimated based on essentially the same process, assumptions and risks as those discussed under PIT revenues above.

Retail Sales Tax (RST) revenues are estimated to be \$16.7 billion in 2007–08, increasing to \$18.4 billion in 2009–10. These are based on the interim estimate of 2006–07 revenues with growth applied through a

model forecast largely determined by the economic growth outlook.

Key assumptions. The key assumption underlying the RST revenue outlook is growth in consumption expenditures. The revenue outcome also depends on the composition of consumption expenditures between taxed and untaxed items. Revenues can also be affected by other types of spending in the economy, notably business spending on items used to produce other goods and services.

Risks related to key assumptions. The principal risks associated with the RST revenue estimate are variances in the growth and composition of consumption expenditures from those assumed in the economic outlook.

Corporations Tax (CT) revenues are estimated to be \$10.6 billion in 2007–08, increasing slightly in 2008–09 to \$10.7 billion, then decreasing to \$10.6 billion in 2009–10. These revenues are based on the interim estimate of 2006–07 revenues, with growth applied according to a model forecast largely determined by the economic growth outlook. The estimate also incorporates the expected impact of all relevant tax measures announced to date by the Ontario Government, including the phasing out of the Capital Tax and the anticipated impact of the federal-provincial agreement to harmonize and streamline the administration of Ontario's corporate tax system.

Key assumptions. Consistent with FTAA, the estimated CT revenues are based on prudent assumptions. The estimate of 2006–07 CT revenues upon which growth is applied is subject to change pending finalization of 2006–07 revenue receipts and the results of tax return filing and processing activity later in 2007 and 2008. The model forecast

for growth in CT revenues for 2007–08 and beyond is largely based on the estimated growth in pre-tax corporate profits.

Risks related to key assumptions. CT revenues are difficult to estimate. Payments, refunds and assessments arising from the filing and processing of 2006 corporate tax returns can have an impact on the 2006–07 CT revenue estimate. As well, profits are difficult to forecast as they are quite sensitive to changes in business conditions. Finally, the CT revenue outcome can be affected by the composition of profits in the economy, as corporations have varying ability to apply discretionary tax deductions and allowances.

All other tax revenues combined are estimated to be \$11.1 billion in 2007–08, increasing to \$12.0 billion in 2009–10. These estimates are developed on an item-by-item basis, using as the starting point estimated 2006–07 revenues. In most cases, expected growth is applied according to model results. For some of the smaller components, the estimate is developed based on revenue trends in recent years.

Key assumptions. The estimated growth in Employer Health Tax revenues is based on the outlook for wages and salaries growth. Gasoline Tax revenue estimates are largely based on disposable income growth and gasoline pump price projections. The outlook for Fuel Tax revenues depends on overall economic activity, measured by real GDP growth projections, and diesel fuel pump prices. Land Transfer Tax revenues are estimated largely based on the growth in housing prices and home resales. The outlook for Electricity Payments in Lieu of Tax is based on the estimated financial performance of Ontario Power Generation Inc. (OPG), Hydro One Inc. (HOI) and municipal electrical utilities. The Tobacco Tax estimate is based on a continuing trend towards reduced smoking.

The remaining items included in other taxation revenues, of which Preferred Share Dividend Tax, Mining Profits Tax and Estate Administration Tax are the most significant sources, are estimated largely based on recent past experience.

Risks related to key assumptions. Variances in estimated revenues from these tax sources generally arise from variances in the key assumptions outlined above, most notably growth in wages and salaries, real GDP growth, gasoline pump prices and housing resale volumes and prices.

Federal transfer payments

Federal transfer payment revenues are estimated to be \$16.1 billion in 2007–08 and then to decrease slightly to \$15.9 billion in 2009–10. This outlook is based on existing federal-provincial arrangements and the Province's understanding of federal intentions regarding Canada-Ontario Agreement (COA) equivalent revenues and the Canada Social Transfer (CST). These revenues were largely confirmed in the federal budget released on March 19, 2007. Further details on the implications of the 2007 federal budget are provided in the "Subsequent Information" section of this report. The estimated revenues decline slightly after 2007–08, largely due to one-time revenue in respect of corporate tax harmonization, decreases in federal funding for wait times reduction, and decreases in trust-fund transfers announced in the 2006 federal budget.

Key assumptions. The estimate of federal transfer payments is based on the Province's understanding of funding commitments made by the federal government. The estimate is also shaped by the understanding of federal legislation, funding formulas and the data applied in determining provincial entitlements.

Risks related to key assumptions. Ontario's share of the Canada Health Transfer (CHT) is dependent upon Ontario's share of Canada-wide population and the Canada-wide basic federal personal and corporate income tax bases. The CST is now determined on a per-capita basis and so is dependent on Ontario's share of Canada-wide population.

Since federal transfer revenues are the outcome of federal government decisions and interjurisdictional negotiations, there is always the possibility of changes in federal legislation, agreements and funding formulas that would have an impact on Ontario revenues. In recent years, for example, new agreements have resulted in increased federal transfer revenues that were not always included in then-current fiscal plans.

Income from investment in government business enterprises

The combined net income of all Ontario Government business enterprises is estimated to be \$4.0 billion in 2007–08, increasing to \$4.5 billion in 2009–10. The estimate reflects information available from the business enterprises themselves. This approach assumes that the enterprises have the best understanding of the factors affecting their businesses and future income. The Ministry of Finance reviews this input and may, if necessary, adjust estimates for consistency with other assumptions or based on updated information.

Key assumptions. The enterprises apply a broad range of assumptions in developing their estimates. For example, estimated net income from Ontario Lottery and Gaming is affected by Canada-U.S. border issues, exchange rates and competition. Net income estimated for the Liquor Control Board of Ontario depends on consumer purchasing patterns and the current policy environment insofar as it

affects product prices or operating costs. Ontario Power Generation Inc. and Hydro One Inc. net income estimates incorporate assumptions regarding electricity demand, weather patterns, natural gas prices, electricity generating station performance, and regulatory requirements and decisions.

Risks related to key assumptions. As indicated above, the financial performance of government enterprises can be affected by a wide range of complex and potentially inter-related economic, market, cost, regulatory and policy factors.

Other non-tax revenues

Other non-tax revenues include reimbursements for services provided, fees, sales and rentals, and miscellaneous other revenues. On a combined basis, all other non-tax revenues are estimated to be \$7.1 billion in 2007–08, increasing to \$7.3 billion in 2009–10. The estimate is developed based on the input from all government ministries and service organizations. This is viewed as a best practice since the ministries and service organizations have the best understanding of the factors affecting their businesses and future revenue streams to the Ontario Government. The Ministry of Finance reviews this input and may, if necessary, adjust estimates for consistency with other assumptions or based on updated information.

Key assumptions. Most of these estimated revenues are largely determined by government revenue policy, with economic and demographic factors also playing a role. Revenues from Vehicle and Driver Registration fees, for example, are largely determined by the fee structure put in place by the Province. Year-over-year increases in the number of vehicles and drivers, which are largely determined by demographic factors, also affect revenues.

Risks related to key assumptions. The risks associated with the estimation of non-tax revenues are generally minor as these tend to be fairly stable from year to year. Most large swings in this element of revenue are due to one-time factors such as the initial public offering of Teranet in the 2006–07 fiscal year.

For more detailed information on the Ontario revenue outlook, see the 2007 Ontario Budget, Chapter 2, Section D.

Details of Estimated Expenses

Total expenses are estimated to rise from \$91.2 billion in 2007–08 to \$96.2 billion in 2009–10, an average growth of 2.7 per cent a year over the period covered by the plan. Consistent with accounting standards for provincial governments, the costs of major tangible capital assets are amortized and included in the total expense estimate.

Most expense estimates are based on the government's comprehensive results-based planning process, which endeavours to ensure that all government-funded activities contribute to meeting government priorities.

The estimated expenses for many provincial programs depend on such factors as future utilization rates, enrolment and caseload growth rates, and labour costs. Actual expenses may differ from the amounts estimated in the fiscal plan, due to changes in any of these factors, and variances could have either a positive or negative impact on program expenses. Given this inherent uncertainty, the fiscal plan includes an allowance for contingencies to help mitigate against risks which may otherwise have a negative impact on results. The 2007–08 and 2008–09 allowances for contingencies represent approximately one per cent of total expenses for these periods, rising to about 1.5 per cent of total expenses by 2009–10, reflecting greater uncertainty associated with estimating further into the future.

Details on risks associated with sector-specific planning assumptions are provided below. The plan reflects policy decisions and directions as of March 16, 2007. Future changes in government policy could have an impact on expenses. With regard to compensation, the terms of existing collective agreements and other arrangements were used to derive expenses until expiry, and estimates applied

thereafter. Unexpected changes in compensation could have an impact on expenses. Additional details on the impact of changes in key planning assumptions are provided in the "Sensitivity Analysis" section of this report.

Health sector

Total expenses for this sector, Ontario's largest, are estimated to be \$37.9 billion in 2007–08 and to grow to \$41.5 billion in 2009–10.

Increases reflect a balance of factors and assumptions in major spending areas. In particular, hospital expenses are planned to grow by 5.0 per cent in 2007–08. The plan includes several strategic investments in the hospital sector, including increased funding for wait time reductions and emergency departments, as well as additional funding for hospitals to improve efficiency and address operational pressures. In addition, in 2007, the 14 Local Health Integration Networks will begin improving integration and coordination of local health care systems, including the hospital sector, with the intent of making them more patient-centred, efficient, accountable and sustainable.

Key assumptions. Estimates are based on assumptions about growth in hospitals' net expenses, utilization of drug programs, physician-related payments and long-term care home beds.

Risks related to key assumptions. Changes in expenses in this sector can arise from unexpected changes in utilization growth rates.

Education sector

Total expenses for this sector, including the net expenses of school boards, are estimated to be \$12.4 billion in 2007–08 and to grow to \$12.9 billion in 2009–10.

Education funding in Ontario is governed by annual regulations made under the authority of the *Education Act*. The annual Grants for Student Needs (GSN) regulations set out the funding formula that allocates grants to school boards for the school year. GSN provides funding to school boards through a combination of education property tax revenues, including Business Education Tax revenues, and direct transfers from the Province called School Board Operating Grants.

Estimated increases in GSN funding will not be affected by the government's plan to cut high Business Education Tax rates. The Province's direct transfers to school boards are being increased to offset that revenue decrease.

The school board funding formula largely reflects student enrolment. Overall enrolment is forecast to decline over the period of the plan. The plan includes increased spending on other aspects of the education sector, including initiatives intended to achieve higher levels of literacy and numeracy and an increased high school graduation rate.

Key assumptions. Estimates are based on assumptions about elementary and secondary school enrolment rates.

Risks related to key assumptions. Changes in expenses in this sector can arise from unexpected changes in student enrolment.

Postsecondary education and training sector

Total postsecondary education and training sector expenses, including the net expenses of the Province's 24 colleges of applied arts and technology, are estimated to be \$5.9 billion in 2007–08 and to rise to \$6.1 billion in 2009–10. In 2007–08, various federal programs and their related funding will transfer to the Province under the Labour Market Development Agreement. As part of the Reaching Higher plan, contained in the 2005 Ontario Budget, total base operating grants to colleges and universities will rise to \$4.2 billion in 2009–10.

Key assumptions. Estimates are based on assumptions about enrolment rates of college and university students.

Risks related to key assumptions. Changes in expenses in this sector can arise from unexpected changes in student enrolment.

Children's and social services sector

Total expenses for this sector are estimated to be \$10.9 billion in 2007–08 and to grow to \$11.3 billion in 2009–10.

The majority of spending is focused on social assistance and child care services, delivered through municipal service managers; child protection services, delivered through 53 children's aid societies; and special needs and developmental services, delivered by more than 370 community-based agencies.

Increases in estimated expenses reflect the introduction of the Ontario Child Benefit, which would consolidate social assistance benefits for children and the Ontario Child Care Supplement for

Working Families into one benefit that would be paid to all low-income families with children, and increases in child protection, special needs and developmental service caseloads driven largely by demographic factors. Estimated expense increases also reflect a proposed increase in social assistance rates of two per cent effective November 2007.

Key assumptions. Estimates of social assistance expense are based on Ontario economic and labour force growth forecasts as well as the demographic outlook for the Province.

Risks related to key assumptions. Changes in expenses in this sector can arise from unexpected changes in the economic outlook or utilization rates.

Justice sector

Total expenses for this sector are estimated to be \$3.3 billion in 2007–08 and to rise to \$3.4 billion in 2009–10.

Expenses in this sector are primarily related to criminal prosecution, court services, legal aid, policing and correctional facilities, and also include resources for victims' services and public safety. The increased expenses over the period of the plan reflect key justice initiatives.

Key assumptions. Key assumptions include the trend in crime rates and the ability to effectively contain operational costs over the period of the plan.

Risks related to key assumptions. Changes in expenses in this sector can arise from unexpected changes in crime rates or operational costs.

Other programs

Total other program expenses are estimated to be relatively stable at \$11.6 billion through to 2009–10.

The other program expense category includes programs and funding for environmental protection; the agricultural, municipal, financial services, manufacturing, energy, forestry, cultural and transportation sectors; and the day-to-day operation of government. These expenses tend to be determined by policy decisions and include time-limited assistance programs.

This expense category also includes employee benefits, Ontario Public Service retirement benefits, the Teachers' Pension Plan and an allowance for contingencies in all sectors.

Key assumptions. The estimated expenses for each of the above-noted sectors and activities are based on the best information regarding the government's planned course of action as determined through the results-based planning process.

Risks related to key assumptions. Changes in other program expenses may result from government policy decisions related to specific sectors.

Interest on debt

Interest on debt expense is estimated to increase by \$0.3 billion between 2007–08 and 2009–10. This reflects the increase in the government's borrowing requirements, including provincial debt incurred for investments in capital assets, and the forecast for interest rates. In 2007–08, interest on debt costs will amount to about 10 per cent of total provincial revenue and is estimated to remain at that level over the period covered by the plan.

Key assumptions. For existing debt, interest expense is derived using the known terms of each debt issue. Interest expense on future debt is estimated using the Ministry of Finance forecast of interest rates provided in the 2007 Ontario Budget, shown in the table below, together with assumptions about the premium ("spread") normally required by investors in Province

of Ontario, rather than Government of Canada, debt instruments. The spreads used each year contain an element of prudence.

Risks related to key assumptions. Forecasts of interest rates and spreads are subject to risks arising from unforeseen economic conditions or other events.

CANADIAN INTEREST RATE OUTLOOK
(PER CENT)

	For calendar years:	2007	2008	2009
Government of Canada Three-month Treasury Bill Rate		4.1	4.3	4.5
10-year Government of Canada Bond Rate		4.2	4.7	5.1

Source: Ontario Ministry of Finance.

This table reflects Table 8 from page 135 of the 2007 Ontario Budget.

Details of the Reserve

FTAA requires the fiscal plan to include a reserve to protect against unexpected and adverse changes in the Province's revenue and expense outlook, including those resulting from changes in Ontario's economic performance. The government can choose to offset the impact of such changes on the Province's annual surplus or deficit by reducing the size of the reserve by an equivalent amount. If any portion of the reserve is not required by fiscal year-end, it is reflected as an improvement to the Province's surplus or deficit

position. For this reason, the fiscal plan presents the annual surplus or deficit position both before and after the reserve.

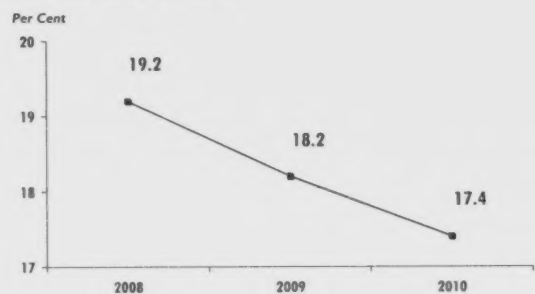
Ontario's fiscal plan includes reserves of \$0.8 billion in 2007–08, \$1.0 billion in 2008–09 and \$1.3 billion in 2009–10. The 2008–09 and 2009–10 reserves are higher than in 2007–08 to reflect the greater uncertainty of estimated revenues and expenses further into the future.

The Ratio of Provincial Debt to Ontario GDP

FTAA requires the fiscal plan to include information about the ratio of provincial debt to Ontario's GDP, where provincial debt is defined as accumulated deficit. The accumulated deficit declines by the amount of the estimated surpluses over the planning period.

Changes in the ratio of provincial debt to nominal GDP will reflect variances in the Province's overall fiscal and economic performance. Over the fiscal planning period, the ratio is expected to improve as both the Province's overall fiscal position improves and Ontario's nominal GDP grows, thereby reducing the ratio from 19.2 per cent at March 31, 2008 to 17.4 per cent by March 31, 2010, if the reserve were required in each year.

**Ratio of Debt to GDP
For Years Ending March 31**



Source: Ontario Ministry of Finance

Subsequent Information

This section summarizes information related to events that occurred after the 2007 Ontario Budget was finalized on March 16, 2007.

2007 federal budget

The 2007 federal budget, released on March 19, 2007, proposed measures to fully fund the Canada-Ontario Agreement (COA) and changes to the allocation formula for the Canada Social Transfer (CST). For the most part, the 2007 federal budget confirmed the Province's expectations based on previous discussions between the Ontario and federal governments specifically with respect to the COA, CST and Canada Health Transfer (CHT). Therefore, estimates included in the 2007 Ontario Budget reflect most, though not all, of the measures proposed in the 2007 federal budget.

In terms of the COA-equivalent, CST, CHT and other transfers, this section updates the estimated impact of these federal transfer payments on the Province's expected surpluses to reflect subsequent details from the 2007 federal budget.

The 2007 federal budget proposed to create additional trusts to assist with providing patient wait times guarantees and an immunization program to provide the human papillomavirus (HPV) vaccine. Neither of these measures was included in the revenue estimates in the 2007 Ontario Budget. Ontario has developed a wait times strategy, included in the 2007 Ontario Budget, which includes additional procedures and improved wait times information systems. The impact of the measures is included in the estimated impact below.

The 2007 federal budget also proposed a number of tax measures affecting Ontario's personal income tax (PIT) and corporate income tax (CIT) that were not reflected in the 2007 Ontario Budget. Under existing agreements and legislation, Ontario automatically parallels certain types of federal PIT and CIT changes and their effective dates. The effect of these federal changes on Ontario's revenue is included in the estimated impact below.

Subsequent taxation receipt information

The taxation revenue estimates in the 2007 Ontario Budget were based on the information available on March 16, 2007. Taxation receipts subsequently received to the end of March 2007 were higher than expected. This updated information impacts the revenue forecast in each year covered by the fiscal plan by shifting the 2006–07 base upon which estimates are built.

Estimated impact

The subsequent information relating to the 2007 federal budget and additional taxation receipts would increase the annual surplus by \$0.2 billion for 2007–08 and decrease it by \$0.1 billion for 2008–09. There would be no incremental impact in 2009–10. As these estimated incremental impacts do not materially affect the fiscal plan presented in the 2007 Ontario Budget, it has not been updated for this report.

Sensitivity Analysis

The tables below set out the estimated sensitivities of various assumptions in the fiscal plan to unforeseen changes. The sensitivities are guidelines only and, for program expenses, are based on averages for program

areas. It should be cautioned that these estimates, while useful, are only guidelines and impacts can vary depending on the composition and interaction of the potential risks.

SELECTED ECONOMIC AND REVENUE ASSUMPTIONS AND SENSITIVITIES

Item/Key Components	2007-08 Assumption	2007-08 Sensitivities
Total Revenues		
Real GDP	1.6 per cent growth in 2007	\$670 million revenue change for each percentage point change in real GDP growth. Can vary significantly, depending on composition and source of changes in GDP growth.
Canadian Interest Rates	4.1 per cent three-month Treasury Bill rate in 2007	Between \$70 million and \$345 million revenue change in the opposite direction for each percentage point change in interest rates.
U.S. Real GDP	2.7 per cent growth in 2007	Between \$205 million and \$480 million revenue change for each percentage point change in U.S. real GDP growth.
Canadian Dollar Exchange Rate	86.0 cents U.S. in 2007	Between \$25 million and \$125 million revenue change in the opposite direction for each one cent change in the Canadian dollar exchange rate.
Total Taxation Revenues		
Nominal GDP	3.1 per cent growth in 2007	\$565 million revenue change for each percentage point change in nominal GDP growth. Can vary significantly, depending on composition and source of changes in GDP growth.
Personal Income Tax Revenues		
Key Economic Assumptions		
Wages and Salaries	3.9 per cent growth in 2007	\$285 million revenue change for each percentage point change in wages and salaries growth.
Unincorporated Business Income	3.8 per cent growth in 2007	\$33 million revenue change for each percentage point change in unincorporated business income.
Key Revenue Assumptions		
Net Capital Gains Income	6.2 per cent increase in 2007	\$10 million revenue change for each percentage point change in net capital gains income growth.
RRSP Deductions	3.9 per cent growth in 2007	\$16 million revenue change in the opposite direction for each percentage point change in RRSP deductions growth.
2006 Tax-Year Assessments ¹	\$20.6 billion	\$206 million revenue change for each percentage point change in 2006 Personal Income Tax assessments. ²
2005 Tax-Year and Prior Assessments ¹	\$1.1 billion	\$11 million revenue change for each percentage point change in 2005 and prior Personal Income Tax assessments. ²

SELECTED ECONOMIC AND REVENUE ASSUMPTIONS AND SENSITIVITIES

Item/Key Components	2007-08 Assumption	2007-08 Sensitivities
Retail Sales Tax Revenues		
Key Economic Assumptions		
Nominal Consumption Expenditure	3.5 per cent growth in 2007	\$110 million revenue change for each percentage point change in nominal consumption expenditure growth
Corporations Tax Revenues		
Corporate Profits	1.1 per cent growth in 2007	\$60 million revenue change for each percentage point change in pre-tax corporate profit growth.
2006-07 Tax Assessment Refunds ³	\$1.5 billion payable in 2007-08	\$15 million revenue change in the opposite direction for each percentage point change in 2005-06 refunds. ²
2006-07 Tax Payments upon Filing ³	\$0.8 billion receivable in 2007-08	\$8 million revenue change for each percentage point change in 2006-07 payments upon filing. ²
2006-07 Tax Assessment Payments ³	\$0.7 billion receivable in 2006-07 and 2007-08	\$7 million revenue change for each percentage point change in 2006-07 assessment payments. ²
Employer Health Tax Revenues		
Wages and Salaries	3.9 per cent growth in 2007	\$40 million revenue change for each percentage point change in wages and salaries growth.
Ontario Health Premium Revenues		
Personal Income	3.9 per cent growth in 2007	\$24 million revenue change for each percentage point change in personal income growth.
2006 Tax-Year Assessments	\$2.4 billion in 2006	\$24 million revenue change for each percentage point change in 2006 Ontario Health Premium Assessments.
Gasoline Tax Revenues		
Gasoline Pump Prices	87.8 cents per litre in 2007	\$6 million revenue decrease for each cent per litre increase in gasoline pump prices.
Fuel Tax Revenues		
Real GDP	1.6 per cent growth in 2007	\$6 million revenue change for each percentage point change in real GDP growth.
Land Transfer Tax Revenues		
Number of Housing Resales	2.7 per cent decline in 2007	\$14 million revenue change for each percentage point change in the number of housing resales.
Average Housing Resale Price	3.0 per cent growth in 2007	\$14 million revenue change for each percentage point change in the average housing resale price.

SELECTED ECONOMIC AND REVENUE ASSUMPTIONS AND SENSITIVITIES

Item/Key Components	2007–08 Assumption	2007–08 Sensitivities
Canada Health Transfer¹		
Ontario Population Share	38.9 per cent in 2007–08	\$30 million revenue change for each tenth of a percentage point change in population share.
Ontario Basic Federal PIT Share	43.4 per cent in 2007–08	\$8 million revenue change in the opposite direction for each tenth of a percentage point change in Ontario's Basic Federal PIT share.
Canada Social Transfer²		
Ontario Population Share	38.9 per cent in 2007–08	\$10 million revenue change for each tenth of a percentage change in population share.
Other Federal Transfers		
Ontario's understanding of increases to federal transfers resulting from the 2007 federal budget	New funding commitments made by the federal government include proceeds from the federal trust for clean air and climate change, Canada-Ontario-Agreement-equivalent amounts, and increases to the Canada Social Transfer.	The status of this increase in transfers will be uncertain should the federal government not secure the necessary legislative approvals.

¹ Ontario 2006 Personal Income Tax (PIT) is a forecast estimate because most 2006 tax returns are yet to be assessed by the Canada Revenue Agency. Some tax amounts for 2005 and prior years are also yet to be assessed during 2007, and estimates of these amounts are also included in the revenue outlook.

² Any change in 2006 or prior-year PIT assessments or 2006–07 Corporations Tax revenues will have an effect on 2007–08 revenues through a change in the revenue base upon which this year's growth is applied.

³ Corporations Tax revenues for 2006–07 are still subject to uncertainty because a high proportion of corporations have until June 30, 2007 to file their 2006 tax returns and much of the activity that arises from that (refunds, assessment payments) will occur during the latter half of 2007.

⁴ These sensitivities have been updated since the 2007 Ontario Budget to reflect changes to these programs announced in the 2007 federal budget, including a move to determining Canada Social Transfer entitlements based solely on population share.

SELECTED EXPENSE ASSUMPTIONS AND SENSITIVITIES

Program/Sector	2007–08 Assumption	2007–08 Sensitivities
Hospital Net Expenses	Annual growth of 5.0 per cent.	One per cent change in hospital net expenses: \$175 million.
Drug Program Utilization	Annual growth of 9.0 per cent.	One per cent change in utilization of all drug programs: \$39 million (seniors and social assistance recipients).
Long-Term Care Homes	75,500 long-term care home beds. Annual average provincial operating cost per bed, after resident co-payment revenue, in a long-term care home is \$38,000.	One per cent change in number of beds: approximately \$28 million.
Elementary and Secondary Schools ¹	Almost 2 million average daily pupil enrolment.	One per cent enrolment increase: \$160 million school boards' net expenses.
University Students ¹	322,000 full-time undergraduate and graduate students.	One per cent enrolment change: \$28 million.
Ontario Works ¹	199,000 average annual caseload.	One per cent caseload change: \$17 million.
Ontario Disability Support Program ¹	212,000 average annual caseload.	One per cent caseload change: \$25 million.
College Students ¹	151,000 full-time students.	One per cent enrolment change: \$7 million.
Interest on Debt	Average cost of borrowing: approximately 4.9 per cent.	100 basis-point change in borrowing rates: approximately \$250 million.

¹ Based on 2006–07.

SELECTED COMPENSATION COST SENSITIVITIES

Sector	Cost of 1% Salary Increase	Size of Sector
OHIP Payments to Physicians	\$82 million	About 22,000 physicians in Ontario, comprising 10,900 family doctors and 11,000 specialists.
Hospital Nurses ¹	\$45 million	Over 54,000 full-time equivalent (FTE) nurses in hospitals.
Elementary and Secondary School Staff ²	\$140 million	Over 195,000 staff including teachers, principals, administrators, and support and maintenance staff.
College Staff ³	\$12 million	About 35,000 staff including faculty, administrators, and support and maintenance staff.
Ontario Public Service ⁴	\$52 million	Over 64,000 public servants.

¹ Based on 2006–07.

² One per cent increase in salary benchmarks in Grants for Student Needs based on 2006–07 school year.

³ Based on 2005–06.

⁴ Based on 2005–06, reflects total compensation costs.

Summary of Significant Accounting Policies and Contingent Liabilities

This section sets out the significant accounting policies used in preparing the plan discussed in this report. Information on contingent liabilities is also provided. Please refer to the Public Accounts of Ontario 2005–2006 for further details.

Basis of accounting and presentation

The Pre-Election Report is prepared on the same accounting basis as the 2007 Ontario Budget and the 2005–06 Consolidated Financial Statements. Those documents are prepared in accordance with the accounting principles for governments recommended by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA) and, where applicable, the recommendations of the Accounting Standards Board of the CICA.

This report has been prepared in accordance with the CICA's standards for measurement, presentation and disclosure of future-oriented financial information.

Reporting entity

The estimated revenues and expenses reflect the expected activities of the Consolidated Revenue Fund combined with those organizations which PSAB standards define as controlled by the government, including public hospitals, school boards and colleges.

Other organizations that are controlled by the Province are individually consolidated provided they meet one of the following criteria: i) their revenues, expenses, assets or liabilities are greater than \$50 million, or ii) their outside sources of revenues, deficit or surplus are greater than \$10 million.

Principles of consolidation

Government organizations, except for government business enterprises and broader public sector organizations, are consolidated on a line-by-line basis with the Consolidated Revenue Fund in these financial statements. Where necessary, adjustments are made to present the accounts of these organizations on a basis consistent with the accounting policies described in the Public Accounts of Ontario, and to eliminate significant interorganization accounts and transactions.

Government business enterprises and public hospitals, school boards and colleges are recognized on a modified equity basis.

Revenues

Estimated revenues are recognized in the fiscal year in which the events giving rise to the revenues are expected to occur and when they would be earned. Amounts expected to be received before the end of the year, which relate to revenues that would be earned in a subsequent fiscal period, are assumed to be deferred to the appropriate subsequent period.

Expenses

Estimated expenses are recognized in the fiscal year in which the events giving rise to the expenses are expected to occur and when resources are expected to be consumed. Estimated expenses include:

- accounts payable accruals
- transfer payments
- interest accruing on debt
- pension and other employee future benefits
- the amortization of tangible capital assets
- net expenses of hospitals, school boards and colleges.

The costs of buildings and transportation infrastructure owned by the Province are amortized and recognized as expenses over their estimated useful lives on a straight-line basis.

Estimated expenses in this report include expected amortization of tangible capital assets owned by consolidated government organizations. The Province is phasing in the implementation of PSAB recommendations on tangible capital assets. Consequently, the costs of acquisition of other tangible capital assets owned by the Province, such as furniture and vehicles, continue to be recorded as expenses for all three fiscal years of the plan. Also, for significant capital leases entered into by the Province, an amount equal to the present value of the minimum lease payments required over the term of

the lease continues to be recorded as an expense at the inception of the lease, with an offsetting liability recorded for the lease obligation.

Contingent liabilities

In addition to the key demand sensitivities and economic risks to the fiscal plan, there are additional risks stemming from the government's contingent liabilities. Whether these contingencies will result in actual liabilities for the Province is beyond the direct control of the government. Losses could result from legal settlements, defaults on projects, and loan and funding guarantees. Provisions for losses that are likely to occur and can be reasonably estimated are expensed and reported as liabilities in the Province's financial statements. Significant contingent liabilities are described on pages 172 and 173 of the 2007 Ontario Budget.

Comments

The Ministry of Finance welcomes your feedback.
Please address your comments on this report to:

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You can also send your comment by electronic mail
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